# The Key to Retirement Planning: Start Early

You'll probably need tens of thousands of dollars more than you might expect.

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Like many couples approaching their proverbial "golden years," Lawrence and Patricia Leech say they're looking forward to retirement.

Pat, a 60- year old former Hughes Aircraft executive secretary, and Larry, a former maintenance supervisor for TWA, both took advantage of early-retirement plans a few years ago. Pat cashed in on her company 401(k) savings plan. Larry, 55, took a job with an aircraft maintenance firm in Mojave and plans to work until he's 62, when, if all goes according to plan, the Leeches should have no major debt and be able to draw about $36,000 a year from their savings.

"I really feel that by the time my husband retires, we'll be able to live like we do now," said Pat Leech.

If so, the Palmdale couple will be something of an oddity. When it comes to retirement, the vast majority of Americans are woefully unprepared, financial planners warn, and are in for some nasty surprises when they quit the workaday world.

With Americans living longer, preparing for retirement is now more important than ever. Yet retirement planning "is probably the major defect in most people's financial planning," said Chris H. Carlson, a Deloitte & Touche tax partner. And when most people finally do get around to thinking about retirement, they are likely to suffer a severe case of sticker shock, he added.

Morrie Reiff, an Encino financial planner, recalled one client who came to him at age 56, figuring that he could retire with the $1 million he'd saved and live comfortably, drawing a $75,000 annual income from the savings. Reiff told him that he couldn't meet his goal without working another five years.

The client was so angry about the news that he refused to pay Reiff's bill.

But the facts are plain: Most Americans will need about 70% to 80% of their pre-retirement income each year to maintain their current standard of living when they retire. That means a 30-year-old today who wants to draw the inflation-adjusted equivalent' of $60,000 a year in retirement would need a nest egg of about $3.5 million when he retires at age 65, Reiff estimates. (By age 65, the 30- year - old would draw $236,765 the equivalent of $60,000 today in the first year of retirement at age 65, assuming a 4% annual inflation rate.)

That nest egg can include expected Social Security benefits, pension funds, individual retirement accounts and equity in homes, businesses and other assets all of which can account for a significant chunk of an individual's retirement needs.

But financial planners warn that relying on these sources alone can leave retirees far short of what they'll need to maintain their standard of living. The accounting firm KPMG Peat Marwick estimates that most people will have to provide for at least 30%of their retirement income through other investments.

And some financial planners, such as David Bergmann in Culver City, are so uncertain about the future of the Social Security system that they no longer figure Social Security payments into the retirement plans of younger clients as a warning that they can't count on those payments being available by the time they reach retirement age. To get an estimate of your expected Social Security benefits, call 1 (800) 234-5772 and ask for form SSA-7004, personal earnings and benefit estimate statement.

The most common mistake people make, said Roger Smedley, a Salt Lake City financial planner, is failing to figure inflation into the retirement equation.

That's no small error. Assuming no inflation, a 37-year-old married worker making $150,000 would need a lump sum of $1.25 million if he retires at age 65 and wants 75% of his current salary, said medley. But factor in a 5% annual inflation rate and that figure balloons to $6.9 million.

While there are no hard and fast rules regarding retirement planning, financial planners urge their clients to start saving as early as possible.

"You should be worried about it beginning in your early 30s," said Carlson. Starting later even a few years later can mean huge increases in the monthly savings needed to reach your goal.

Even after the initial shock of learning how much it will cost to retire, financial planners say, most people still make excuses for not saving. "Twenty-five-year-olds say, 'We can't because we're saving for a house,' " said Smedley. "In their 30s, they say, 'Our kids need shoes and eyeglasses.' In their 40s, it's 'Our teen-agers need designer jeans.' In their 50s, it's 'Our children are in college and weddings aren't cheap.' "

But there are only a couple of alternatives to retirement planning, and for most people they aren't very attractive. One is to work longer. The other is to accept a much lower standard of living after retirement.

"That's really all they have to look forward to if they don't plan," said Bergmann.

THE HIGH COST OF RETIREMENT

The tables below indicate the first-year savings needed by a 30-, 40-, 50- and 60-year- old starting today to reach the equivalent of three levels of yearly income by age 65. The calculations assume a 4% annual inflation rate; an 8% after-tax return on investment; life expectancies of 85 years for the single retiree and 87 for married; a 4% annual increase in savings and a 4% annual increase in retirement spending. Expected Social Security benefits and contributions to pension plans may be subtracted from the total savings needed.

| Annual retirement income, single | | | |
|---|---|---|---|
| **Age** | **$36,000** | **$48,000** | **$60,000** |
| 30 | 7,173 | 9,564 | 11,995 |
| 40 | 12,558 | 16,744 | 20,930 |
| 50 | 25,878 | 34,504 | 43,130 |
| 60 | 94,872 | 126,496 | 158,121 |
| Annual retirement income, married | | | |
| **Age** | **$36,000** | **$48,000** | **$60,000** |
| 30 | 7,604 | 10,139 | 12,674 |
| 40 | 13,313 | 17,751 | 22,189 |
| 50 | 27,313 | 36,579 | 45,723 |
| 60 | 100,577 | 134,103 | 167,629 |
| Source: Planned Asset Management | | | |